BUSINESS PARTNERING When Does It Work?

By Sailesh Venkatraman

Everyone talks about business partnering. But what is it? When does it work? And how do you make it work? In my prior job, we'd hear about business partnering every year. But usually nobody could really explain what it meant.

That got me thinking. I've seen great results from good business partnering, and it's a lifeline for any finance department that wants to stay engaged and deliver value to the business. So I decided to write this article based on my personal experience to show you when business partnering works—and how to do it.

I also reflect on how I developed my own partnering expertise in "Business Partnering: My Personal Journey." I hope it will help and inspire you.

Shifting Toward Operations Knowledge

Business partnering has become more important because of a big change in the skills required for finance officers. After the 2001 finance scandals, finance officers had to know accounting and auditing practices very well since they were required to ensure accurate and truthful reported numbers. But today's finance officers also need strong operational experience and business partnering skills to navigate through economic crises.

Barry Bregman is vice chairman and the global head of boutique recruiting firm CTPartners' chief financial officer practice. When he was interviewed for an article titled "Companies Seek Operational CFOs" (www.ctnet.com), Bregman said, "In many ways, the operational CFO profile has become the new standard…what CEOs and boards want is for their CFO to be a world-class business partner—nothing less than that."

Corporations want finance officers who also have experience in operational roles in areas such as marketing, sales, or supply chain functions so they can become more effective business partners. And large companies have been pushing harder to get finance team members a seat at the decision-making table and become true business partners. Companies even call partnering a top finance priority. But when you ask finance leaders and partners to give a precise definition of partnering, the response is vague and fuzzy.

Exactly what does it mean to be a business partner?

Playing an Active Role

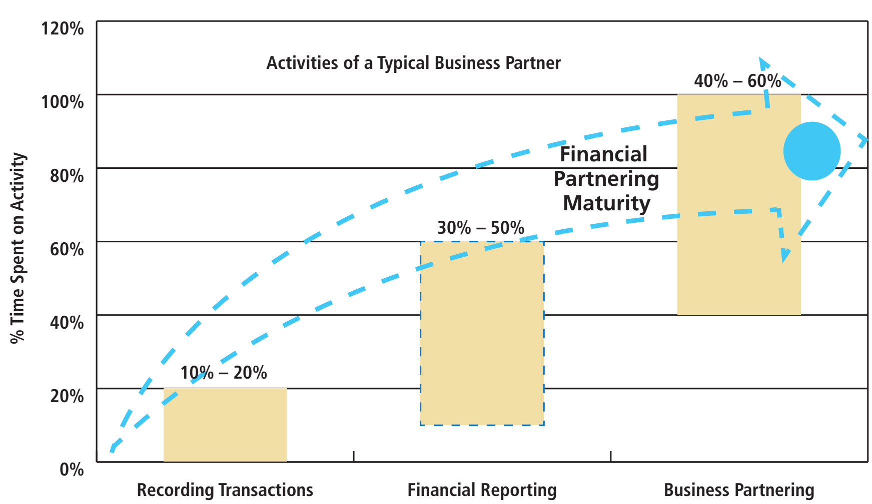
To be real business partners, finance executives must play an active advisory role alongside functional stakeholders, navigating whatever business challenges occur. Finance executives identify business risks, then tailor business strategy and plans to deliver promised financial results—for both the board of directors and the investment community.

Using their operational knowledge and leadership skills, finance partners also must teach their functional partners the business and financial realities of decision making. And they have to use their broad business experience to assess, redesign, and reengineer changes—in processes, people, and technology. That's the way to handle emerging business problems.

But finance partnering remains a tough concept to implement. Finance employees are still spending most of their time in traditional finance and accounting activities. They are preoccupied with tasks such as recording transactions or generating and distributing business reports. That leaves little time for the value-enhancing activities of a finance business partner. Before embarking on partnering initiatives, companies must assess the health of their basic financial accounting and reporting abilities. Do they have well-defined, clearly documented policies and procedures? Do they have robust processes, excellent financial systems, and top-notch information technology (IT) infrastructure? All those things give employees more time to focus on developing partnering competence.

Figure 1 shows core finance activities performed by financial business partners within the finance and accounting organization of a large consumer prod-

Figure 1: Time Spent by Business Partners on Core Activities



BUSINESS PARTNERING:
My Personal Journey

My business partnering journey started during a consulting stint. We stressed client satisfaction and fact-based consulting, and we constantly reminded ourselves about these two goals while delivering our services. When I transitioned to a corporate finance role, I still kept these two goals uppermost in my mind.

My work experience has helped prepare me for a business partnering role. As a leader in Cap Gemini Ernst & Young, LLC's business-to-business (B2B) supply chain management service line, I learned about full life-cycle strategic sourcing and supply chain performance improvement projects. Later I held a variety of senior financial management positions at Sara Lee Corporation and the Kellogg Company, deepening my knowledge of the food manufacturing industry. In my current position as CFO at Snyder of Berlin Snacks, I'm applying all that I have learned about finance, reporting, and business operations as a business partner. You can apply these lessons to your own industry.

My personal background also helped because I have an undergraduate degree in mechanical engineering, and I come from a family of accountants and economists. So when I entered the engineering profession, I became the go-to guy. I explained engineering to the accountants and accounting and finance to the engineers. And I continue to do that in my current position, explaining the numbers to my business partners.

But what else did I do to become a successful finance business partner?

Treat Your Business Partner Like a Client

As a finance business partner, my first priority is to treat any functional business partner like a client, keeping client service and satisfaction foremost in mind. Every Excel spreadsheet I send out also includes a summary and actionable insight into the data. I illustrate the data with graphics so readers can intuitively understand the numbers. I follow up on data analysis requests in a timely fashion, explaining my analysis assumptions to the partners as clearly as possible. I explain how I arrived at my conclusions and let partners provide feedback. Then I incorporate their feedback into my work. And I ensure that each stakeholder is informed about and agrees with my analysis assumptions. One thing you don't want is disagreement by key stakeholders at the decision-making table!

This strategy has allowed me to provide objective advice about business decisions. I haven't always said what my business partners wanted to hear, but they have appreciated my candor and knowing the rationale for my decisions.

Focus on Key Metrics

Over the years I've learned that not all business partners are financially savvy. Some partners understand the numbers better than others. Nevertheless, today's economic and competitive conditions make it imperative that finance business partners stay at the top of their game and provide ongoing value. They must identify key performance measures that link to financial performance in a transparent manner. And these key metrics must be measurable consistently across profit centers and provide a link to managers' performance.

Another thing I've learned is that what gets measured gets managed. At the same time, having too many metrics and performance measures clouds efficient business operations and confuses business managers. The key is to focus on five to seven key metrics to measure the business's performance. Finance business partners must build these measures on a periodic basis—weekly, monthly, or yearly—so they can be used for sustained business performance and comparisons.

These measures must relate to business performance and give managers a sense of how the business is performing. For example, I assumed a business partner role at a consumer products bakery company that had a $2.8 billion yearly revenue and ranked number one or number two in its markets. But the company wanted to penetrate new markets where it wasn't established—a process that can be very expensive.

My job as a finance business partner was to support the vice president/general manager and help the company expand into new markets.

How could we judge whether we were penetrating the new markets and how well we were doing? Were new consumers trying our new products, and were they making repeat buys? Traditional reports measured growth in a market on a year-to-year basis. But we needed to know what our growth was month-to-month and even week-to-week. So I developed more timely metrics. We agreed to measure market expansion on a weekly basis using five metrics.

In the consumer products bakery business, company trucks deliver products to supermarkets and other retail outlets. The truck delivery person records how much product each store buys each week. That information goes up the management chain to his or her manager, the division manager, the regional manager, and then to the vice president—who looks at market penetration across all regions. The level of reporting has to be consistent, with everyone seeing the same verified, accurate information. There can be no guessing.

Those metrics provided a tangible measure, week-to-week, of how we were doing across all the divisions, market areas, and retail store levels. We measured the total gross value of sales, the number of retail outlets getting delivery, net sales value, pounds of product sold, and the percentage of product returned if it was unsold after eight days. I redesigned the financial reporting and measurement around our weekly metrics to gauge whether we were penetrating the new markets.

The partnering achieved results. We penetrated new markets, adding 2,000 new stores selling our products in three key states over a 12-month period.

Build Trust by Understanding the Business Context

Business partnering really happens when you earn the trust of your functional team members by understanding the competitive situation and the business context in which the functional team operates. You also must take a proactive lead in doing analysis to help alleviate or explain the issues they face. It's vital to build your knowledge about customers, products, competition, sales, plant operations, and technology so you can provide intelligent input. And it's important to develop commercial or business knowledge so functional partners can trust your judgment. You must understand the context of whatever problem the company is facing and develop a flexible response. That builds management's confidence in you as a business partner.

For example, I took the initiative when I was a finance business partner at a $4 billion leading U.S. snack company. The company had undergone a significant cost-cutting exercise that eliminated some nonproduction plant staff positions at several locations. Managers were unhappy because they wanted to restore or increase the number of staff positions in their traditional budgets. But that would defeat the needed cost cuts. What should the company do?

Instead of continuing the old budget system, I suggested we introduce zero-based budgeting. In a traditional budget, a company may decide to have a 3% increase or a 5% increase across the board in any year. But zero-based budgeting says let's start from scratch. What do you really require to run the business? What resources are needed? What skill sets are essential? We encouraged managers to reevaluate their needs instead of automatically wanting to rehire the same number of people they had before. Then they could see if they really needed the same, fewer, or more employees.

I was able to convince top management to adopt zero-based budgeting because I understood the context in which it was used and developed it as a flexible response to a problem. As a result, we were able to turn the business around and make significant improvements.

Do your partnering in a flexible fashion so you can step in when there's a perceived management oversight gap and step back when necessary. Finance business partners also must be vigilant, driving the business forward without waiting to be asked. They need to monitor the pulse of the business, ensure that all programs and projects are proceeding properly, and raise concerns where required.

While individuals must take some of these steps, I advocate business partnering with a customer service mind-set so every finance and accounting employee understands that he or she is supporting the functional partner in running the business efficiently. That will help guarantee a successful business partnering journey for everyone.

—Sailesh Venkatraman

ucts company. It illustrates how much time the partners spend on the core finance activities of recording transactions, financial reporting, and business partnering. These are approximate percentages based on my personal observation and experience at companies such as Sara Lee (which had a $24 billion to $6 billion restructuring) and the Kellogg Company. The amount of time can vary with business size, the finance team's maturity, and the financial analyst's position.

As the chart shows, financial business partners spend less time performing routine tasks and more time doing activities that create business value. But that requires finance departments with proven, robust processes and well-designed information systems that automate financial reporting and sending financial information to the business users. To be effective, the finance business partner must develop the right mind-set and skills.

Developing the Right Mind-set

There's no formal step-by-step way to become a good finance business partner. You must motivate and coach finance employees to develop a business partnering mind-set. For example, to become a strong business partner, a financial analyst needs to:

1. Know how and where his or her company makes money,
2. Manage risks and opportunities by valuing trade-offs, and
3. Get behind initiatives, developing both reliable estimates and an executional roadmap.

Let's look at these key areas and how they support finance business partnering.

How and Where Does Your Company Make Money?

Most business leaders are rewarded for achieving financial and performance targets. Finance business partners become trusted advisors who enable the functional partners to meet their quarterly and annual financial targets. To perform this trusted advisory role, you need a good understanding of the key performance drivers and the levers that can create value for business. For example, to support the sales function you must know your top customers and how they perceive value in your products or services. Some customers make purchasing decisions based on price, while others value quality customer service. Using key financial metrics, you must show the sales team all the customer profile differences in volume, profitability, and collection risk. Similarly, a supply chain finance partner must understand the plant economics—labor cost, automation levels, fixed cost structure, and so on—plus manufacturing cost differences, sourcing options, and customer fulfillment capabilities. You must develop the key skill of linking the various performance value drivers to overall financial success.

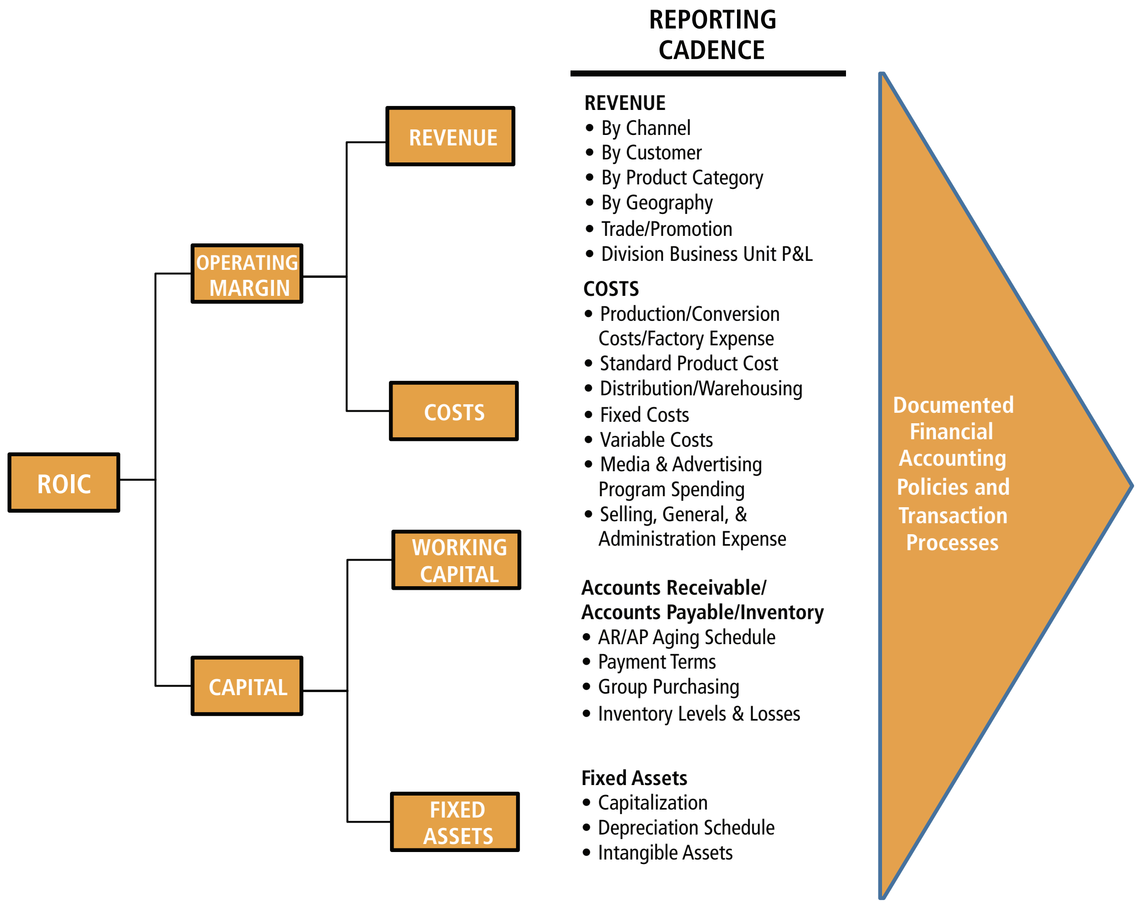
FINANCE BUSINESS PARTNERS BECOME TRUSTED ADVISORS WHO ENABLE THE FUNCTIONAL PARTNERS TO MEET THEIR QUARTERLY AND ANNUAL FINANCIAL TARGETS.

Finance team members can develop this skill by studying value-based management (VBM) techniques. VBM focuses on a single performance metric—company value—which is represented by its discounted future cash flows. Value is created when a company's return on invested capital (ROIC) is greater than its cost of capital. VBM makes finance managers focus on this concept of value, helping them make both operating and strategic decisions. It brings coherence to their decision-making process. By tailoring the value framework to daily performance and activities, finance managers can show operating managers how to make the right value-creating decisions.

A good resource to study is *Valuation: Measuring and Managing the Value of Companies* by Tim Koller, Marc Goedhart, and David Wessels. In Chapter 14, the authors extensively discuss how managers can create value using the VBM technique. VBM is based on value drivers, which are any variables that affect the business's value. The authors say it's important to have a deep understanding of the key value drivers. Working with functional managers, the finance manager must identify and define value drivers. Then line managers can choose to make decisions that enhance those value drivers. For example, let's say a logistic manager is tasked with reducing distribution costs. We can measure his or her success by the number of trailer truckloads needed per week and the reduced number of packing cubes needed to deliver a set volume of products from the plant to the distribution center. These become one value driver to measure the logistic function's performance.

But as I've said, an effective business partnering process is possible only if an organization has the proper

Figure 2: Identifying Functional Managers' Reporting Needs



mechanisms to track its activities and provide timely financial reporting. Then it can use the value framework to develop reporting requirements that foster a business partnering culture. Figure 2 provides a framework to identify the reporting needs of functional managers. I have used accounts receivable (AR) and accounts payable (AP) as a proxy for working capital, excluding inventory. As we know, working capital equals current assets minus current liabilities (AR minus AP). Note also that Figure 2 shows items that contribute to ROIC.

By developing appropriate financial reports and tying the reports to key value drivers, finance managers can develop robust business partnering relationships with the functional stakeholders.

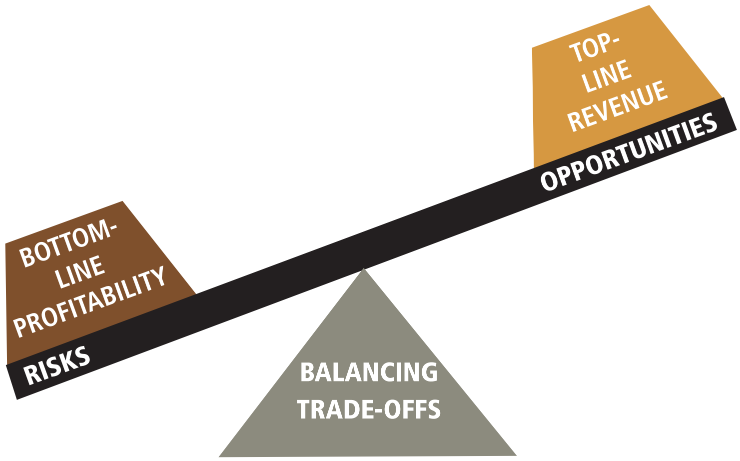
Managing Risks and Opportunities

In today's hypercompetitive marketplace, competitors are knocking on your customers' doors, so finance professionals must assess competitive risks and new opportunities. Because the business environment is changing so quickly, operating budgets often become irrelevant as soon as they are developed. This means finance business partners must develop contingency plans that account for alternate operational scenarios and identify creative "out-of-the-box" solutions that cover the operating budget gap. These days, mitigating operational and financial risks is a finance business partner's central focus. With ever-expanding supply chains, fluctuating commodity prices, and customer bankruptcies, the finance business partner has to use trade-offs—weighing risks and opportunities to deliver on financial commitments.

In a competitive environment, there also is constant pressure on business team leaders to achieve goals for both top-line revenue and bottom-line operating profits. The finance business partner has to constantly monitor both external market dynamics and internal performance to align senior management expectations with the financial results. It's about managing expectations and proactively managing the risks to the operational targets.

It also is vital to understand what's important for the

Figure 3: The Competitive Balancing Act



business so that short-term targets reconcile with long-term business goals. Finance managers have to champion business growth initiatives to support the business's competitive positioning. But they also need to promote an efficiency mind-set and behavior that support the achievement of bottom-line profit targets. This is a tough balancing act, even for seasoned professionals (see Figure 3).

The results of a trade promotion show the real-world trade-off thinking a business partner must do. There's a fixed cost per unit to produce any product, and the products produced have to "absorb" or pay for that fixed cost—let's say it's $1 per bag of potato chips. But during your sales promotion month, consumers can buy three bags of chips for the price of two, causing more customer demand. The factory must produce more bags of chips, so the fixed cost is absorbed by more product units—which lowers the fixed cost per unit. The finance business partner must understand how all these elements affect the bottom line and must consider them when planning strategy and formulating advice.

Cheerleader or Critic?

The finance business partner, who is usually the first sounding board for performance improvement initiatives in a company, is in a unique position. He or she can be a critic of bad initiatives or a cheerleader for good ones. This is an important role, and the finance business partner should take it seriously. If being an effective business partner is your goal, you need to have an open mind and understand the rationale and the plans behind the initiatives. You should get a full understanding of the project, including the cost/benefit analysis and project timelines. And you must evaluate the robustness of the project execution plans and the resources behind them. These are onerous tasks, but they are necessary to ensure that these initiatives will be successful and guarantee the long-term success of the company. For larger organizations, the CEO and board of directors expect the finance business partner to become the official storyteller, explaining these initiatives to both the investor community and the internal company audience.

Acquiring and mastering these business partnering skills is an ongoing effort. But the framework I've discussed will help you partner with functional managers and continue your own professional growth. It will also motivate your teams to become excellent business partners. You can also use this framework to bring new employees aboard, and it will help you develop talent within their teams. Then you'll reap the full benefits of business partnering—because you've learned how to make it work. **SF**

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